Banking . . .

Continued from page 17

systematically, the survey found. Of the respondents, 21% said they were reviewing their banks much more systematically; 52% said somewhat more; and 27% said there has been no change.

Along those lines, 37% of the respondents reported their companies either dropped services or reduced services at banks because of their financial troubles. Of those, 17% dropped services from troubled banks, 13% reduced services and 7% did both. In all, they dropped 165 services and reduced the use of 52 more.

The most frequently cited services dropped or reduced were lockbox, controlled disbursement, depository, borrowing, demand deposit accounts, cash concentration accounts and dividend payment accounts.

The survey found 32% of the respondents have or will hedge on average 30% of their borrowings, using futures, options or other protection.

The rest don't hedge their borrowings with protection instruments.

Few corporate treasury departments are satisfied with the benchmarks they use for measuring the performance of their corporate cash investment portfolios. In fact, 40% of the respondents said they don't have a benchmark.

Only 20% of the respondents are satisfied with their benchmarks; 34% said their benchmarks could be improved but aren't planning any changes; and 10% said they are planning to adopt better measures.

The most frequently used benchmarks are Treasury bills, cited by 10% of the respondents; commercial paper rate, 5%; the money market fund averages published by Donoghue Organization Inc., Holliston, Mass., 5%; federal fund rate, 5%; and other money market fund rates, 3%.

The survey found only 16% of the respondents employ or plan to employ by next year outside managers to invest corporate cash. On average, they use or plan to use about three or four managers each.

Few treasury executives use money brokers to invest in certificates of deposit or other instruments. Of them, 69% never use money brokers; 29% use them occasionally; 1% recently started; and 1% always use them.

Only 11% of the respondents offer or are planning to offer electronic direct deposit of corporate dividends to non-institutional shareholders.

Of the respondents not offering electronic dividend deposits, 36% said they never considered it; 24% said not enough shareholders are interested; 18% cited loss of float; 15% said it would be too costly; and 9% cited other reasons, mainly that their companies don't pay dividends. ■

Carol Wiley, P&I Age directory coordinator, compiled the survey results.

Treasury functions

	Leads to promotion (% of responses)	% of time spent on
Broader corporate finance	50.5	19.7
Other	15.4	22.1
Working capital management	6.8	5.9
Selecting lending banks	5.1	4
Other bank relations	5.1	9
Short-term borrowing	5.1	8.6
Investing corporate cash	3.4	10.6
Float management	2.6	7.6
Selecting collection/ disbursement banks	2.6	5.3
EFT/EDI development	1.7	4.8
Pension investments	1.7	2.4

Bank services more competitively priced
(ranked by % of responses)

Disbursements	23
Lockbox/check clearing	18
None	11
ACH/EDI	10
Wire transfers	5
Account maintenance	3
All	3
Credit services	2
Item deposits	2
Demand deposit accounts	1.5
International services	1.5

Services for which banks raised prices
(ranked by % of responses)

Lockbox/check clearing	27
Wire transfers	15
All	13
Balance reporting	9
Account maintenance	7
Controlled disbursement	5
Item deposits	5
Letters of credit	3
Safekeeping	3
ACH	2
Demand deposit accounts	2

Benchmarks used to evaluate investment staff/managers
(ranked by % of responses)

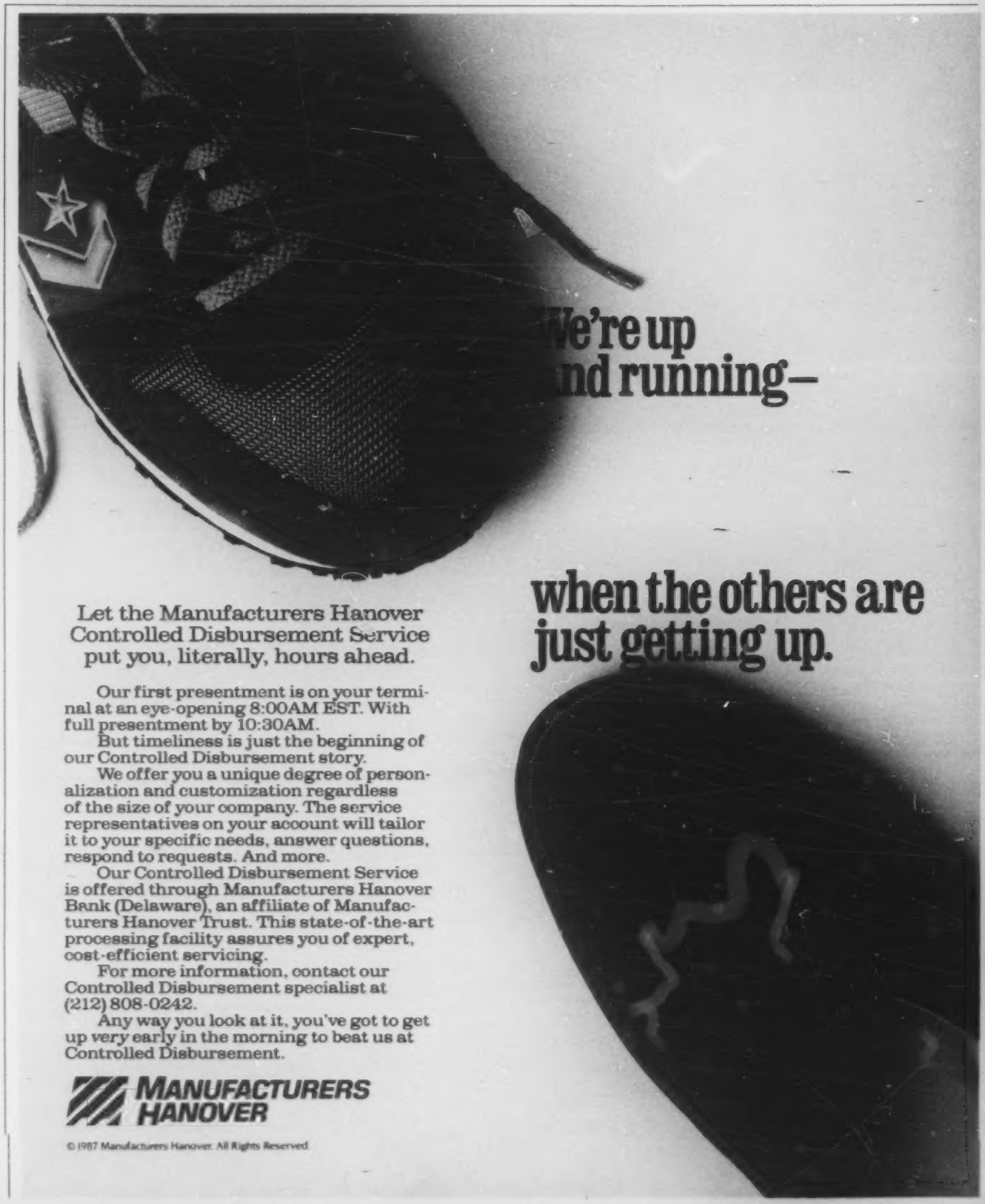
Treasury bills	10
Commercial paper rate	5
Donoghue averages	5
Federal funds rate	5
Money market fund rates	3

Midsize firm will get hit at tax time

Midsize firms with annual sales between $1 million and $250 million will pay an average of 22% more in taxes in 1987 as a result of the Tax Reform Act of 1986, according to a study prepared by The CIT Group, an asset-based financing company in Livingston, N.J., and Peat Marwick, New York.

The CIT-Peat Marwick study showed heavy-construction contractors and real estate firms as well as businesses in agriculture, forestry and fishing face the greatest percentage increases in tax liabilities.

Tax cuts are expected in the securities and commodities services area while smaller increases are likely for chemical manufacturers and insurance agents/brokers. ■



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Buybacks . . .

Continued from page 2

"The buybacks were something that contributed to a more positive tone," said Abby Joseph Cohen, investment policy analyst at Drexel Burnham Lambert Inc., New York. But there's no direct relationship between buybacks and individual companies' stock prices, she added.

More than 300 companies announced stock buyback plans after the market crashed Oct. 19. An announcement alone could prop up a company's stock price, while purchase of shares would result in lower dividend payments and higher earnings per share. Because a buyback has the potential to lift a company's stock price, the move is seen as an anti-takeover strategy.

Typically, statements announcing buyback plans have stressed the company's faith in its own stock. For example, when Procter & Gamble Co. announced it would repurchase up to 10 million of the company's 169,196,524 shares, Chairman John G. Smale said: "We are taking this action because the price of our stock in the past week has, at times, represented an excellent buying opportunity and we want to be prepared for such opportunities if and when they arise in the future."

Several market experts wondered about the number of shares that actually would be bought back after the announcements.

The announcements enable companies to perhaps enhance shareholder value without the cash outlays needed for dividends or acquisitions.

"What we don't know and can't quantify is how much was actually executed vs. just indicated," said Eric T. Miller, chief investment officer at Donaldson, Lufkin & Jenrette Securities Corp., New York.

Others raised concerns about companies that actually do carry out the buybacks.

"How come they're not raising dividends?" asked A. Marshall Acuff Jr., portfolio strategist at Smith Barney, Harris Upham & Co., New York. Dividends would have a greater impact on shareholder confidence than the buyback announcements, he said.

"They are looking for quick fixes," Mr. Acuff said. "Management says that Wall Street is short term but what we're seeing here is that managements by their actions are acting in the short term."

An Oct. 25 report by PaineWebber Inc. gave a more optimistic assessment. Repurchase announcements "went a long way to reversing Monday's collapse," the report said.

PaineWebber based its upbeat prediction on a comparison between the volume of stock that could be sold in portfolio insurance programs and the amount corporations could repurchase. Corporations have about $70 billion to spend on stock buybacks, while PaineWebber estimates $50 billion to $60 billion is in equity portfolios protected by portfolio insurance. Somewhat less than half of the shares in insured portfolios remain unsold, according to PaineWebber.

"It would seem that the buying potential of corporate America substantially exceeds the selling potential of portfolio insurance," the PaineWebber report said.

Money managers also are scrutinizing the list of more than 200 stock buybacks.

"We're looking for somebody who is enhancing shareholder value," said Orie L. Dudley Jr., chairman and chief executive officer of Fort Hill Investors Management Corp., a subsidiary of Merchants Capital Corp., Boston.

While offering a generally positive view of the recent spate of stock buybacks, Mr. Dudley said the announcements raise questions. "Is the management compromising financial position or growth and competitive position? That's the question we're asking ourselves."

The large number of companies that announced buybacks after the crash creates grounds for concern, said Kenneth S. Hackel, president of Systematic Financial Management Inc., Fort Lee, N.J.

"I would have thought they would have waited for the air to clear so they could determine what the fallout means for their business," he said. "Why would you want to spend cash now if you need it in the next couple of quarters?"

An economic downturn would drain the benefit expected from stock buybacks, Mr. Hackel said. "If, in fact, this turns into a very serious recession, many of these companies will have made a serious error in judgment." Even a mild recession would hurt leveraged companies that used internally generated cash or credit capacity to pay for a stock buyback, he said.

"Companies having financial flexibility are able to undertake capital projects which companies without such flexibility cannot," he said.

Buybacks make sense for companies with stable cash flows, strong balance sheets and solid operating histories, Mr. Hackel said.

The rating agencies, never enthusiastic about reductions in equity, offered a measured response to the wave of announcements.

Many companies are borrowing from banks and insurance companies to finance the stock repurchases. "Our program to make two- to three-year loans to companies for stock buybacks has been warmly welcomed," said James Crowley, co-head of investment banking, Prudential-Bache Capital Funding.

The Prudential affiliate is acting as agent in these transactions.

A statement from Moody's Investors Service Inc., New York, said the rating agency "does not expect wholesale rating reviews or downgradings" as a result of the buyback announcements made after the stock market crash.

"We're looking at each one to see whether it would have a material effect on capitalization," said Samuel Gordon, the director of industrial ratings at Moody's.

"I don't see wholesale changes, but there will be some rating impact," said Solomon Samson, a senior vice president at Standard & Poor's Corp., New York.

Concern about credit quality has not been an obstacle to companies interested in buyback programs, said Barry S. Friedberg, director of investment banking at Merrill Lynch Capital Markets, New York. "The advice we would give our clients is in the context of their financial policies relative to their objectives with credit ratings."

Standard & Poor's and Moody's have announced several credit reviews related to stock buyback announcements.

Both agencies placed American Medical International Inc. under review with negative implications after the leveraged company said it would buy $150 million of its own stock.

Moody's also announced a buyback-related review of National Distillers & Chemical Corp. and reported the focus of its existing review of Dayton Hudson Corp. has shifted to the company's buyback announcement.

Standard & Poor's placed MCA Inc., and two units of IC Industries Inc. on Credit Watch in moves that were related to announced stock buybacks. ■

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Catch-22 . . .

Continued from page 2

management firm.

In fact, said William Ramseyer, president of Pension Realty Advisors, San Francisco, the stock market's plunge is good for overall real estate investing. "This will persuade pension strategists to increase the real estate allocations. Our feeling is this is the time to be diversified," he said.

Some pension executives must be thinking the same thing: Real estate managers and consultants report the number of feelers from prospective clients increased around the time the stock market began its gyrations leading to its historic 508-point drop.

AT&T's Mr. Roessler said increased inflation and volatility in the financial markets enhance real estate's appeal. "We might be approaching an opportunity going forward, depending on how this thing shakes out," he said. "We always try to be an opportunistic investor in real estate."

Fiduciaries will put more money into less volatile asset classes, regardless of their target allocations to those classes, said Bruce Ludwig, senior managing partner at TCW Realty Advisors, Los Angeles. He said some pension funds, especially public ones, likely will increase their commitments, because they have been funding their investments with cash flow, not by selling off other assets.

James A. Perry, executive director of the Pennsylvania Public School Employees' Retirement System, Harrisburg, which has $1 billion of its $12.4 billion pension fund in real estate investments, said his fund isn't up to its target allocation of 10%. "We do have money available if we found the right deal."

"The thing with real estate is you have to buy it right," Mr. Perry said. "We're not going to go out and buy a whole bunch of real estate just because the stock market went down."

It's also possible there will be fewer "right" deals: Under a market-induced recession scenario, vacancy rates would rise even higher, making real estate less attractive to pension investors that purchase fully leased properties *(see related story on this page)*.

James Richmond Jr., president of Aetna Realty Investors Inc., Hartford, Conn., theorizes cash from liquidation of stocks will go into real estate and could, eventually, cause real estate funds to become oversubscribed.

"I just hope managers don't take in too much more than they are prepared to invest. This could put the real estate market in an imbalance," Mr. Richmond said.

Louis Kingsland, senior vice president of Callan Associates, San Francisco, agrees with Mr. Richmond's theory. He fears an infusion of more capital could lead to overpricing, as more investors bid for the narrowing pool of real estate.

The type of real estate that will be attractive to investors, experts noted, is higher-quality property with predictable and stable returns. More speculative investments, such as pre-development land, could fall by the wayside.

"There's been an erosion of investor confidence that's going to cause people to be more cautious," said Kenneth A. Campia, president of LaSalle Advisors Ltd., Chicago.

Despite all the theorizing, at least one pension executive doesn't expect any significant changes in the real estate investing habits of pension funds.

"I'd be surprised if there were any sudden move in either direction," said W. Allen Harrison, assistant treasurer of Exxon Corp., New York, whose $4 billion fund has $400 million in real estate. ■

Real estate writers Steve Hemmerick, John Covaleski and Chuck Paustian also contributed to this story.

Realty outlook poor

With the stock market plunge coming at a time when the real estate market already is soft, fears of a market-induced recession prompt predictions of even higher vacancy rates, lower absorption and curtailed development.

Raymond Torto, economic consultant for Coldwell Banker/ Torto, Wheaton in Boston, said a recession would cause a significant drop in absorption during 1988 as well as continued reduction in construction.

"The net result is supply and demand fall, and there is a slight increase in vacancy, but nothing we call a significant change," he said.

He said vacancy rates, which now are about 19% based on a weighted average for the 30 top markets, would go to 20% in 1988 and would peak in 1989 before heading down.

Lawrence S. Bacow, director of research at the Massachusetts Institute of Technology — Center for Real Estate Development, Cambridge, Mass., said the "wealth effect" — how wealthy people feel and their subsequent spending habits — foretells a recession, and "people and institutions will put spending on the shelf."

If there is a recession, said James Snyder, president of Kennedy Associates Real Estate Counsel Inc., Seattle, there will be less need for office space and that will only worsen vacancy conditions.

Specifically, the financial services companies will shrink and that will translate to reduced space needs.

Finance-related companies in New York City leased 27% of the available office space in the first half of 1987, said Anthony J. LoPinto, senior vice president and director of financial services at Cushman & Wakefield Inc., New York. In addition, he said, reduced space needs will have a domino effect, halting development and hurting the leasing of completed projects.

Not everything connected with a recession would be negative for real estate.

David R. Hodes, senior vice president of Richard Ellis Inc., New York, said a recession could create buying opportunities. Pension funds, he noted, would be one of the few investor groups to take advantage of them.

Also favorable is the effect on financing, said Mr. Torto. Lower interest rates, which accompany a recession, would help people who are holding buildings. Financial institutions also would benefit, he said, because rates on loans they made during high-interest periods would be going down.

Among the property types affected by recession are industrial real estate, distribution warehouses and retail properties.

Japanese buyers may pause

By Joanne Friedrick

Japanese investors likely will continue to be major players in U.S. real estate, but might proceed more cautiously following the fall of the stock markets in the United States and Japan.

"I think the Japanese will pause. They have been financing (the purchase of U.S. property) through corporate borrowing, so the corporate net worth is impaired," said Lawrence S. Bacow, director of research at the Massachusetts Institute of Technology — Center for Real Estate Development, Cambridge.

The Japanese have been borrowing on floating rates, so even though interest rates are falling, volatility is going up, Mr. Bacow added.

"Further devaluation (of the dollar) will cause them to slow down their acquisition."

David R. Hodes, senior vice president at Richard Ellis Inc., New York, agreed a sharp drop in the dollar would cause the Japanese to exercise more caution because interest rates would effectively be lower.

So far, though, his firm hasn't experienced a decline in interest by Japanese investors.

Louis Kingsland, senior vice president at Callan Associates, San Francisco, is more pessimistic. He said the Japanese could pull out of the U.S. real estate market because of instability in the stock markets, providing some buying opportunities for U.S. institutions.

Prices of U.S. properties wouldn't drop, though, because there's already too much competition for quality real estate investments, said William Ramseyer, president of Pension Realty Advisors, San Francisco.

Although he has not seen a letup in the Japanese appetite for U.S. real estate, Mr. Ramseyer conceded concern about the financial markets might cause the Japanese to "rethink" their commitments.

James Snyder, president of Kennedy Associates Real Estate Counsel Inc., Seattle, predicted if the Japanese market is hit hard and there is no improvement in the U.S. market, the Japanese will buy less real estate here.

"I don't see (a pullout) happening," commented Paul Saylor, principal at Institutional Property Consultants, Atlanta.

Indeed, hard assets such as U.S. real estate will continue to be attractive, although the Japanese have suffered the same shaken confidence as U.S. investors, said Anthony S. LoPinto, senior vice president and director of financial services at Cushman & Wakefield Inc., New York.

"Those in the stock and bond markets here have been hammered," Mr. LoPinto said, "but not all are heavy players in the stock and bond markets, and they have capital available for investment."

The Japanese "can elect to invest in real estate rather than equities because liquidity isn't a big factor for them," said H. Lee Goodwin, senior vice president of The Horne Co., Houston.

"The excess capital is so great that they have to put money here in some form or fashion," Mr. Goodwin said. ■

REITS . . .

Continued from page 2

"which went down more" than other REITs, such as those that contain mainly retail properties.

Yet L&N Housing Corp., a participating mortgage REIT that its sponsor labels a hybrid, began the month at 16⅞ and closed at 19⅛ Oct. 23.

Carey B. Wickland, president of L&N Management Inc., Dallas, the Lomas & Nettleton subsidiary that sponsors L&N Housing, wasn't surprised by the stock's movement. He said investors could have been responding to L&N's Oct. 12 announcement that earnings and dividends rose during the third quarter.

Mr. Lucas' calculations, done at the request of *Pensions & Investment Age*, lend credibility to REIT sponsors' long-held claim that their stocks are less volatile than the market as a whole. In fact, said Mr. Lucas and others, REITs should be looked upon as a defensive play and would be a good investment vehicle to turn to in the aftermath of the market tumble.

Stan Ross, co-managing partner of Kenneth Leventhal & Co., Los Angeles, said REIT yields make them a good investment. "The smarter money looks at it (REITs) as a real estate play," he added.

Of course, there's a flip side: REITs didn't fully participate in the bull market that characterized the first nine months of 1987.

Nevertheless, REITs performed as expected, said Thomas B. Swartz, chairman of The Sierra Capital Cos., San Francisco. "Most people who buy REIT shares don't buy them to trade them. (REITs) are just slower moving; leases don't turn over every minute," said Mr. Swartz, who saw one of Sierra's REITs gain a quarter of a point the day the market fell 508 points. ■

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Management approaches: What Bloom off portfolio insurance

By Trudy Ring

Portfolio insurance worked — but not always as advertised.

In many cases, it did not provide the level of protection promised. And many of the vendors had to sell the underlying securities to get some protection when they couldn't sell futures because of a shortage of buyers.

Some clients are satisfied with how it worked; others are unsatisfied; and some aren't saying.

Portfolio insurance, also called dynamic hedging, is a computer-driven method of reducing a portfolio's exposure to stocks systematically as the market declines. Initially it involved selling the stocks and moving to cash.

As most recently marketed, however, it involved the sale of stock index futures in response to declines in portfolio value to protect the portfolio from further declines and assure a minimum return. The sale of futures creates a synthetic put option on the portfolio.

Dynamic hedging also can be done with bond futures to protect a bond portfolio.

Difficulties in stock index futures trading during the market's plummet Oct. 19 and the temporary shutdown of trading the following day led to speculation that portfolio insurance failed to insure, at least at the levels promised.

The consensus appears to be that dynamic hedging programs are missing their minimum rate of return targets slightly. One money manager said some insured portfolios now likely are one to four percentage points below where they should be to meet those targets when the programs wind down. The target rate of return and time horizon vary widely among programs.

Still, some pension executives and money managers said dynamic hedging worked satisfactorily. Others, including some who had been among its most vocal boosters previously, declined to discuss how it functioned. That list includes officials of Manville Corp., Denver; Bechtel Power Corp., San Francisco; Southern California Rapid Transit District, Los Angeles; and Leland O'Brien Rubinstein Associates Inc., Los Angeles, a pioneer in the area.

One of the satisfied customers is Allen W. Anning, director-retirement plan administration at Detroit Edison Co. The utility has $500 million of its $744 million pension fund hedged with portfolio insurance by J.P. Morgan Investment Management Inc., New York. The $500 million is all equities and represents all but about $112 million of the fund's equity allocation.

"Initially, it looks like it worked extremely well," Mr. Anning said.

The fund has three portfolio insurance programs, all aiming for no loss over various time periods. The programs may not quite meet that target, but it appears they will come close enough to be satisfactory, he said.

Detroit Edison has used portfolio insurance since February 1986. As the value of the insured portfolios grew through market gains, the fund reset the insurance programs to assure the current value of the securities, he said. Such resetting, called ratcheting, has proven critical to programs' success, he said.

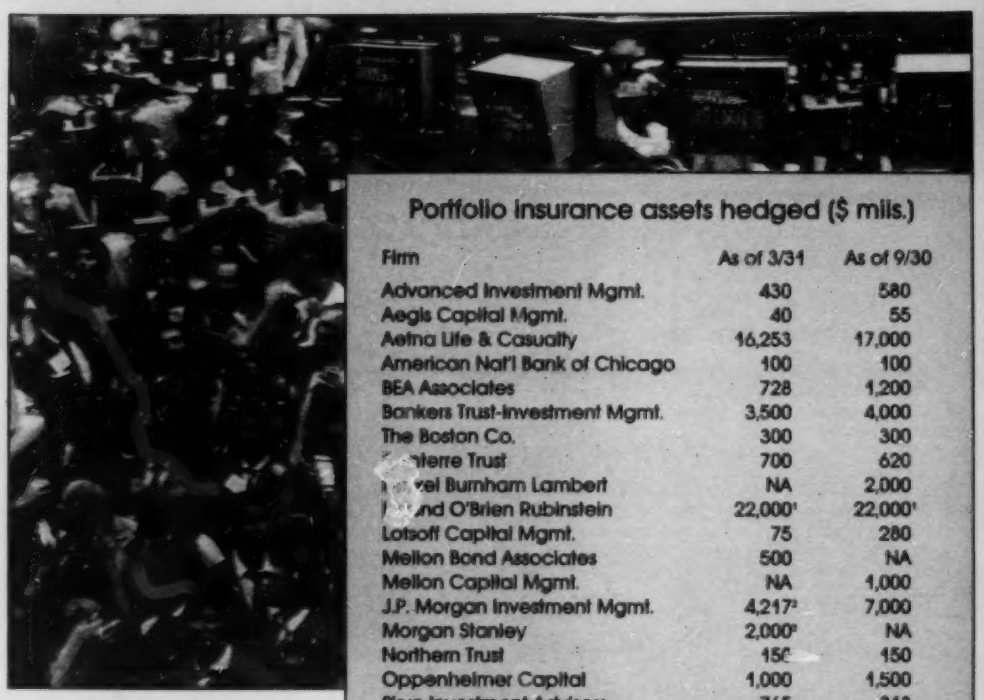
At Bayer USA Inc., Pittsburgh, the $550 million pension fund started a portfolio insurance program on $31 million in indexed stocks early in October.

"I believe it worked pretty well," said Jeff Benninger, manager-trust investments. "Those (managers) I've talked to indicated they were able to trade."

Mellon Capital Management Corp., San Francisco, runs the insurance program as well as the stock index fund. The insurance program aims for no more than a 5% loss over three years.

Some managers said, with some reservations, the strategy worked.

"It depends on who was implementing it," said Frederick L.A. Grauer, chairman of Wells Fargo Investment Advisors, San Francisco. Some managers decided it was too expensive to sell stock index futures at deep discounts Oct. 19, so they didn't trade; Wells Fargo did trade, both in the futures and, in the accounts where it had the authority, in the cash markets.



Difficulties in stock index futures trading at the Chicago Mercantile Exchange and other futures exchanges led to speculation that portfolio insurance failed to insure, at least at the levels promised.

Portfolio insurance assets hedged ($ mils.)

Firm	As of 3/31	As of 9/30
Advanced Investment Mgmt.	430	580
Aegis Capital Mgmt.	40	55
Aetna Life & Casualty	16,253	17,000
American Nat'l Bank of Chicago	100	100
BEA Associates	728	1,200
Bankers Trust-Investment Mgmt.	3,500	4,000
The Boston Co.	300	300
[illegible]nterre Trust	700	620
[illegible]vel Burnham Lambert	NA	2,000
[illegible]nd O'Brien Rubinstein	22,000[1]	22,000[1]
Lotsoff Capital Mgmt.	75	280
Mellon Bond Associates	500	NA
Mellon Capital Mgmt.	NA	1,000
J.P. Morgan Investment Mgmt.	4,217[2]	7,000
Morgan Stanley	2,000[2]	NA
Northern Trust	150	150
Oppenheimer Capital	1,000	1,500
Skye Investment Advisors	765	813
The Travelers	125	150
Webster Capital Mgmt.	0	80
Wells Fargo Investment Advisors	10,700	9,200
Westridge Capital Mgmt.	35	40
TOTAL	63,618	68,068

[1] *Pensions & Investment Age* estimate
[2] As of Jan. 1

Because of the gaps between stock and futures prices that day, some of Wells Fargo's accounts fell below their minimum rates of return, but they made that up in the following days, Mr. Grauer said. "Our accounts are, for all intents and purposes, where they should be," he said. "There was significant delivery on the promises of portfolio insurance."

"I think it still does what it says," Jim Carder, president of Westridge Capital Management, Los Angeles, said of dynamic hedging. The deep discounts at which Standard & Poor's 500 stock index futures were selling during the market's drop and the extreme volatility of the market made portfolio insurance more costly than anticipated, but these factors don't invalidate the concept, he said.

"Futures were a very difficult market to move in," said Tom Allen, president of Advanced Investment Management Inc., Pittsburgh. For some accounts in which Advanced manages both the underlying securities and does the dynamic hedging, it sold the securities rather than shorting futures.

Webster Capital Management, New York, was able to do this in all its accounts, said Jon Jankus, director of investments. "Having the flexibility to move both in the cash and the derivative markets — thank God," he said. "I'm sure

Continued on page 51

Drop may take steam out of indexing

The dramatic slip in the U.S. stock markets may slow the flood of pension assets into index funds, some financial experts predict.

Index funds, designed to match the performance of major indexes and avoid the high costs of active equity management, "obviously took a big hit," said Sam DeKinder, executive vice president at DeMarche Associates, Kansas City, Mo. From Oct. 1 to 23, the Standard & Poor's 500 stock index declined 22.9%, according to DeMarche, while the Dow Jones industrial average dipped by 24.9%. Through Oct. 26, they dropped 29.3% and 30.9% respectively.

"I think you may now start to see a shift toward a more conservative posture. Unfortunately, many plan sponsors will start to rethink their investment policies under crisis conditions, not a terribly great time to be making these types of decisions," he said.

"Indexing will slow because basically sponsors had been making an asset allocation decision toward equities with indexing and were saying active equity managers could not outperform the index. . . . The index funds took whatever hit the index took because they are fully invested and there is no cash there."

Noel Feldman, investment consultant with Hewitt Associates, Santa Ana, Calif., agreed indexing may fall on hard times.

"We've been saying for some time that people have been viewing index funds almost as a conservative way to invest in the equity market. You are assuming, though, the full market risk by using index funds without any investment manager to do anything at all to soften the blow," he noted. "Virtually all active managers will outperform the market in this type of decline to some degree. This will drive home the point that index funds are not the comfortable, conservative investments many had believed."

David Bostian, president of Bostian Research Associates, New York, said the decline of indexing will lead to enhanced awareness of market-timing and asset allocation disciplines.

"The S&P has taken such a vicious smash that people will realize that timing and asset allocation have some real value, and my guess is that people will blow out of indexes into cash for the time being. The momentum toward indexing has stalled," said Mr. Bostian.

Frederick L.A. Grauer, president of Wells Fargo Investment Advisors, San Francisco, which oversees the largest pool of indexed assets, disputes the notion there will be a shift away from indexing.

"I think the future remains very bright," he said. Mr. Grauer said the S&P remains in the top performance quartile in most performance surveys over three to five years and "it remains the case that most active managers are having trouble beating the benchmarks."

Wells Fargo had total S&P indexed assets of $33 billion as of Sept. 30.

Most of the indexed assets were unhedged, he said, and moved with the market. Wells does offer its clients the option of having portfolio insurance, and has about $9 billion protected by the strategy. He said he expects more clients to elect to have portfolio insurance on their indexed accounts.

Mr. Grauer said the trend by pension funds toward indexing should continue once the market settles.

"First, the performance game is still much disposed to market benchmarks and second, the secular argument today is widely accepted and more pension funds are using index funds as part of their structural part of the architecture of the plan as a way of achieving more controlled results at a very low cost. The secular argument remains intact," he said.

"Also, in the past 10 months equity market performance has been strong and has taken many plans up to their maximum commitment to equities. As a consequence, there has been a drawdown on indexed assets because it was the cheapest way to adjust the asset mix back to normal.

"With the drop in equity values, that's no longer a problem. I suspect a number of sponsors now will have less equity exposure than they need and I look for a flow toward indexing," said Mr. Grauer.

Luke Mazur, chief investment officer for Northern Trust Co./Strategic Investment Services, Chicago, which manages a $4.3 billion equity index fund, said he expects the interest to remain in indexed products.

Northern's indexed assets are not hedged and declined "in line with the market," he said. He added no adjustments were made in the fund and "at some point the market will test the lows. Then it will be up to clients as to how they reallocate their assets." ■

worked, what didn't

Timers call market right

Continued from page 50

there were a great many portfolio insurers who needed to trade (futures) and couldn't."

Webster moved its portfolio insurance accounts fully into cash Oct. 16, one trading day before the 508-point plunge.

On that Monday, Oppenheimer Capital Corp., New York, suggested its portfolio insurance clients buy futures after having sold them short previously, therefore closing out futures positions, said Gene Brody, director of options management. Oppenheimer didn't try to sell any futures Oct. 19, he said.

Bankers Trust Co. — Investment Management Group, New York, met its hedging targets in 10 of its 12 portfolio insurance accounts, in which it also managed the underlying securities and sold them rather than use futures, said Dean D'Onofrio, vice president and manager-quantitative investments. In the others, the manager had to sell discounted futures or do nothing.

"It's no secret that the stock index futures, because of too many sell orders and not enough buy orders, haven't been trading at their fair value," Mr. D'Onofrio said. "Portfolio insurance is still attainable, but it is attainable only if you can trade in the underlying securities."

Insured accounts didn't go down as much as the market, said Pete Thomas, vice president of Skye Investment Advisors Inc., Cupertino, Calif. The Equity Guard Stock Fund Inc., a mutual fund for which First Republic-Bank Dallas manages equities and Skye provides dynamic hedging, was down 7.2% for the period July 1 through Oct. 22, while the S&P 500 was down 18.3% for that period, he said. The fund aims for no loss over a year and will come close to that, Mr. Thomas said.

However, coming close to meeting a goal doesn't satisfy some investors, and some managers are rethinking their dynamic hedging methods. "You just have to accept the fact there are certain conditions (in which) you just don't function," Oppenheimer's Mr. Brody said.

The Boston Co., Boston, had some difficulty in trading futures and had to sell them at discounts, said Richard A. Crowell, managing director, structured investment products group.

But while providing some protection, the trades didn't provide what was promised. For instance, Mr. Crowell said, one of his clients aimed for a minimum loss of 5%; the account probably will be down 8% or 9% at the end of its time horizon, although it likely will be ahead of the market.

Aetna Life & Casualty Co., Hartford, Conn., is moving its dynamic hedging clients into different types of programs, said Ralph Tate, vice president. Some will involve changing the parameters of futures-based hedging programs, and some will be moving away from futures-based programs to those implemented in the cash markets, Mr. Tate said.

Portfolio insurance's harshest critic contends the stock market's slide proved him correct. "People are going to see it doesn't work and it's going to die a natural death," said Richard Brignoli, president of Brignoli Models Inc., New York.

Mr. Brignoli and his partner, William M. Morris, also said portfolio insurance exaggerated the market's decline. Mr. Brignoli added dynamic hedging programs add to the market's volatility because they create demand when there's already demand and supply when there's supply. ■

The best-performing investment managers emerging from the rubble of the stock market tumble likely will be asset allocators that employ a form of market-timing discipline, and the market timers themselves

Noel Feldman, investment management consultant with Hewitt Associates, Santa Ana, Calif., said the best-performing investment managers were primarily three-class allocators that switch among equities, cash or bonds, and happened to be in bonds before the market dropped.

"I'm not sure the (pension) plan sponsors have fully discovered these guys yet. It looks like now they have proven their merit," said Mr. Feldman.

Renaissance Investment Management Inc., Cincinnati, with $1.25 billion under management, is a three-class allocator that began shifting out of stocks as early as February and into intermediate-term bonds. It liquidated its remaining stocks in May and bought bonds.

"We are active asset allocators; it is similar to market timing but our style is fundamentals driven," said Frank Terrizzi, chief investment officer at Renaissance.

"It is an emotion-free system based on historical data, prices, earnings, dividends and yields. If returns on stocks and bonds are equal, we split between them. If the returns are 10% greater in one, we shift to that category."

"In February, our asset allocation model indicated bond returns were equal to stocks, and we were 50-50. In May, the returns on bonds became 10% greater than stocks and triggered a 100% move to Treasuries.

"We took a lot of heat from our clients who saw the market going up. The last six weeks for us have been the most trying time since we've been in business. Some clients defected, but this market has been a vindication of our methodology," said Mr. Terrizzi.

Renaissance had a first-quarter return of 18.9% followed by −5% and −5.3% in the second and third quarters; for the year to date through Oct. 23 the firm was up 11% to 12%, said Mr. Terrizzi.

Avatar Associates, New York, an equity and strategic asset allocation manager, expects to benefit from the market shakeout, said Bruce Poliquin, vice president.

He said Avatar had been bullish on the market through early September, when it moved away from its 85% invested position and raised cash to 55%.

The decision was the result of the Federal Reserve Board's credit tightening, foreign investors not pumping new money into the market, liquidity drying up and expected interest rates hikes.

Just before the drop, he said, client confidence in Avatar's approach was manifested in an increase in assets under management. Within the past month, he said, four pension funds — K mart Corp., Troy, Mich.; Boston City Retirement System; Kroger Co., Cincinnati; and Browning-Ferris Industries, Houston — either hired Avatar or increased existing accounts with the firm.

Shifts away from the equity market were not restricted to asset allocators.

John M. Cunningham Inc., Wayne, Pa., a value-style manager with assets of $16 million, shifted to a 95% cash position this summer, said John M. Cunningham, chief investment officer. "It was plain and simple the valuation on the market and my issues indicated there was not enough upside and considerable downside risk in the market."

Mr. Cunningham said clients have called, not to complain, but because "a lot of people are caught in the mystique of what's happening in the market. Even though I've told them we are in cash, they are still calling just to check and make sure."

Another value manager, Mark Raclin, executive vice president with Lowry, Raclin, Harrell & Howerdd, Chicago, said the firm has done "significantly better than the market in equities and has beaten the S&P by a couple of hundred basis points."

"It is our feeling that the market has gone from the place where it was a very poor value to a place where it is still a little above average value, by some measurements. A month ago we thought it was a poor value."

"Some clients defected, but this market has been a vindication of our methodology."

Frank Terrizzi
Renaissance Investment Mgmt.

Mr. Raclin said the firm was "probably only about 30% invested Oct. 14," and was "at or near a minimum equity position from midsummer or earlier. We missed the last 100 points on the Dow on the upside because we felt there was no way of knowing how high the market would go."

Mr. Raclin said there has been "too much second guessing and tea-leaf reading" in the aftermath of the market drop. There are "basic financial and economic reasons underlying the market actions," he said, "and when it gets too high it goes down, then when it gets too low it goes up. Decisions need to be made before that happens, not after."

For months before the start of the October market drop, Wall Street analysts and financial specialists had been warning the market was overvalued, overextended and overbought and were advising investors to prepare for a pullback.

"This decline shouldn't have been a surprise to anyone who analyzed the market," said Edwin Fiske Thrall, chief investment officer at Fiske Capital Management, Wellesley Hills, Mass. Fiske moved out of the equity market into cash in March and April, he said, "because the market was so obviously vulnerable."

Fiske Capital also applies a cyclical asset allocation strategy to investing in the equity market, moving between stocks and cash.

"We base capital in the money markets and only go into equities when they are moving upward and the risk factors are reasonable . . . Throughout most of this year, this has been a market driven by emotion. It came unraveled very quickly, and we felt we should stand aside," said Mr. Thrall.

Fiske has nine levels of aggressiveness, he said; the middle one falls between returns on the S&P and money markets.

"We move in stages, normally we move into the market gradually and move out quickly," he said. "The approach provides investors with the advantages of being in the market without most of the risk."

Three weeks before the market slip, Dana Investment Advisors, Brookfield, Wis., which employs market-timing techniques, shifted to 90% cash in equity accounts.

"A lot of it was basic common sense. The market was overvalued. There were a lot more stocks declining than advancing. We decided to take our profits and run," said Jim Ivey, chief strategist at Dana. "We had the gains we wanted. We did take some heat for a while. We aren't geniuses; we took our profits and got out." ■

Editors note: The stories on market timing, quantitative and index managers were reported and written by Fred Williams.

Pictured from left: Theodore Aronson of Aronson & Fogler; Daniel Schweihs of Disciplined Investment Advisors; and Dean LeBaron of Batterymarch Financial Management.

Quant managers take hit in stride

Computer-driven quantitative equity managers, fully invested because of their methodology, felt the brunt of the October stock market drop.

The computerized stock selection and investing process is designed to keep portfolios committed to the market. But quant managers have seen no significant pullback by clients concerned the process may not have worked.

"We have given back the gains we experienced earlier this year," said Theodore Aronson, partner at Aronson & Fogler, Philadelphia, with about $175 million under management.

Quantitative managers claim the investment style functioned as it was designed to do, but they were caught in a market in which everyone was cut by the same broad sword.

Mr. Aronson said quants are characterized by "the lack of emotion. Our computers don't know the market is down by 508 points. It is unemotional and ruthless in doing its job and allows you to ply your trade in an unemotional, disciplined fashion.

"I think you will see quant managers come out of this better than other managers because of the unemotional approach. In violent, volatile times like these, discipline has obvious payoffs. It keeps you from following the crowd."

Mr. Aronson said he remains fully invested and through Oct. 26 equity performance at Aronson & Fogler had declined almost in line with the Dow Jones industrial averages. The Dow was down about 30% as of that date while his portfolios were down 28%, he said.

Daniel J. Schweihs, principal of Disciplined Investment Advisors, Evanston, Ill., acknowledged being down in line with the market, but he expects the disciplined style to be vindicated by market conditions over the longer term.

"If you bought the market in 1982 at 860 on the Dow and the intraday low was 770, you don't look bad five years later because you missed the low. If you have a long investment horizon, the same holds true today," he said.

"If you bought at 10% above the bottom it was still a good long-term investment. In 15 years, this will be an interesting event in history," said Mr. Schweihs.

Perhaps the best-known computerized stock selection process is applied at Batterymarch Financial Management, Boston, with $10 billion under management.

Dean LeBaron, president and chief investment officer, said the firm's quant investment process didn't outperform the market.

"Our (program) is designed to keep us fully invested and almost everything went down equally in this market," he said.

"Our quant screens are designed to compare relative valuations around the globe and how corporations value themselves."

He said the Batterymarch process is designed to "implement rather than think" and said he remains committed to the process.

"I'd guess there was a 10% chance of a financial accident before (the market drop), considering the velocity of money in the system and other factors. That has gone up now to a 30% chance," he said. "Are you worried? Sure, but you don't change your strategy at nythis point. We continue to do the same things we have always done." ■

Aftermath . . .

Continued from page 1

Means Committee proposal to limit the tax deductibility of interest payments on money borrowed to finance takeovers or stock buybacks.

"We've ridden a long wave of prosperity and the market was overvalued," said H. Kent Atkins, chief investment officer of Bankers Trust Co. — Investment Management Group, New York. "It's a sizable correction, and it occurred very rapidly, but it's still a long foreseen correction," he said.

"When bubbles burst," said William L. Fouse, chairman of Mellon Capital Management, San Francisco, "things come down quickly. The rapidity was perhaps exaggerated by portfolio insurance."

The impact

Executives at many institutions emphasized that although they and others had suffered paper losses, the crash was not a disaster. Most of them reported declines close to, or just slightly below, the market decline, and emphasized they lost only what they had gained this year. They still have four years of bull market gains in their portfolios.

The American Telephone & Telegraph Co. pension fund, New York, declined less than the market during the crash, said David P. Feldman, corporate vice president.

The fund, which had $31 billion in assets Sept. 30, was 50% in stocks before the crash, equally divided between passive and active management. While the passive portfolios declined about as much as the market, the best-performing active manager was down only 10%, he said.

Overall, the market drop put the fund back to its size at the beginning of the year.

"It was a hit, but I think it's a part of the business we're in," Mr. Feldman said. "The markets go down as well as up. It's a lot more fun when they go up, but everyone anticipated a correction."

The $13 billion University of California pension and endowment funds, which typically are 75% invested in large-capitalization, well-financed companies with consistent growth records, "had spectacular performance before the crash," said Patricia Small, associate treasurer.

During the crash, "the whole portfolio lost about 20% of its value. We went from about $10 billion to about $8 billion in common stocks. Our common stocks had been up 38% from the first of the year until Sept. 30, so we gave up a large part of the gain."

Based on interviews with more than 30 major institutional investors, *Pensions & Investment Age* estimates the 100 largest managers of pension funds lost $140 billion in pension assets during the crash.

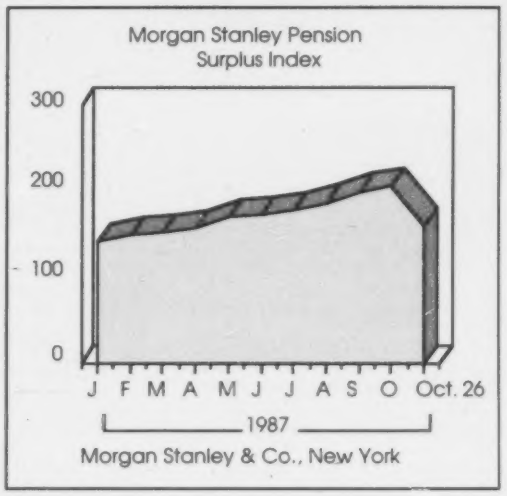
And as the charts on this page and page 1 show, corporate pension funds in aggregate still have a healthy cushion of surplus assets.

In fact, pension funds have almost as large a surplus after the crash as they had at the beginning of April. The Morgan Stanley Pension Surplus Index started the year at 132.96, rose to 144.87 by April 1, peaked at 176.11 Oct. 1 and fell to 144.6 Oct. 26.

Marty Leibowitz, a partner at Salomon Brothers Inc., New York, estimated pension funds assets were about 60% greater than liabilities April 1, and they grew to be 104% greater Oct. 1. By Oct. 26 they had declined substantially, but still were 60% greater than liabilities.

Pension funds "haven't given back all the gains yet," said Jeremy Gold, principal at Morgan Stanley & Co., New York. "If things stabilize where they are, we would still see lower pension expense in 1988 than in 1987."

According to Mr. Leibowitz, pension funds have been hit by a "double whammy" since the crash. Not only have stock prices plummeted, but declining interest rates have increased the present value of liabilities. This explains why the pension surplus declined more than 40%, significantly more than the market. Nevertheless, he said, pension funds, overall, are still well funded.



As a result, there is no sense of panic among pension fund executives and trustees.

The equity portfolio of the California Public Employees' Retirement System, Sacramento, declined $7 billion from a high of $21 billion between the end of August and the end of the day Oct. 19, but the fund's trustees reacted calmly and supportively, said Greta Marshall, investment manager.

They understand market corrections occur, Ms. Marshall said. In addition, the fund had gains in its fixed-income portfolio during the same period that partly offset the losses in the equity market.

Some were buying

The immediate reaction to the decline by a number of institutions was to buy stocks because value was detected in the market once again.

"You can look across the board and it's a bargain," said O. Thomas Barry III, senior executive vice president and director of investments for George D. Bjurman & Associates, Los Angeles.

Bjurman, which had raised some cash before the crash, has used some of it in buying such stocks as **Anheuser-Busch Cos. Inc., Dow Chemical Co., Smithkline Beckman Corp., NCR Corp.** and **Digital Equipment Corp.**

"We bought hundreds of millions of dollars in stocks, mostly great big blue-chip companies — the ones that got the hell beat out of them," said Peter Anderson, senior vice president-investments at IDS Financial Services, Minneapolis.

"We said this was a good time to buy, so we've been buying," said Ms. Marshall. "We had $3 billion in buying reserves and we have been trying to get the best deals."

She noted fund officials had said long before the crash they would buy into any decline, and because the fund was providing liquidity in the panic-driven market, it was able to drive hard bargains.

Independence Investment Associates, Boston, which had raised equity portfolio cash to 20% early in the year, also bought in the aftermath of the crash.

"We began buying heavily (Oct. 19) and then continued the buy program aggressively on Tuesday. By the end of the day Tuesday, we were fairly close to fully invested," said William Fletcher, executive vice president and chief investment officer.

Centerre Trust Co. of St. Louis, had cash reserves of about 5% when the crash began and redeployed that in the market during the sell-off. In addition, it sold some bonds in balanced accounts to buy bonds at "bargain prices," said Jim McGuire, senior vice president.

The New Jersey Division of Investment put about $100 million into the stock market during the week ended Oct. 23, said Roland M. Machold, director. "We think this is panic oriented." He said the fund might commit more, "but since the market has been moving toward us, we might wait and see."

Short-term effects

Institutional investors generally saw both short- and long-term effects of the crash.

The short-term effects largely revolve around the economy and the government.

Most interviewed expect some slowing of the economy, but do not expect the crash by itself to bring on a recession.

"Our view is that the actual damage to the economy in terms of wealth effect probably won't be too bad and won't lead to the conclusion that we're heading into a recession. I don't think that's in the cards," said Victor J. Melone, chief investment officer, Manufacturers Hanover Investment Corp., New York.

"Wall Street and the brokerage community have come out of this in far better shape than anyone had a right to expect. That's quite bullish, and the result is that we'll be able to bounce back much faster."

Frederick Joseph, chief executive officer, Drexel Burnham Lambert Inc., New York, said the damage to Wall Street will include "a lot of broken deals."

Initial public offerings "are going to be very difficult to do. In mergers and acquisitions and (leveraged buy-outs), most deals (previously in the works) are being renegotiated," he said. In addition, the high-yield bond market is being segmented by qualit, with the bottom quartile "having a hard time finding people to step up and buy the issues."

"Near-term, capital is very nervous, but when it analyzes the numbers, it is available," he said.

Most investors interviewed also

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Financing . . .

Continued from page 2

Medium-term note programs have been especially popular, because they offer flexibility. Issuers offer to sell the continuously offered debt to investors at certain rates for various maturities. Among those issuing such debt since the market plunge are Eastman Kodak Co., Rochester, N.Y.; ITT Financial, an operating unit of ITT Corp., New York; General Electric Credit Corp., Stamford, Conn.; Johnson & Johnson, New Brunswick, N.J.; and General Motors Acceptance Corp., Detroit. Investment bankers expect to see many more in the weeks ahead.

"You can take advantage of rates without going to a full debt issue," said Mr. Starkman of American Express, which has filed a $500 million shelf registration with a piece carved out for medium-term notes.

"You can do it at a bit lower cost in these shorter maturities. It's a way to issue paper quickly . . . and you can fund opportunistically."

Wall Street's finance experts point out that intermediate financing may be the answer for many companies, because it can tide the company over until the market settles and the future course of interest rates becomes clear while providing for short-term financing needs. They stress these financing alternatives are not a substitute for equity offerings, only a chance to take advantage of the lower interest rate environment.

"Advise them (corporate treasurers) to take advantage of some windows, especially MTNs, for intermediate financing and then wait and see," said Robert A. Schwartz, vice president and senior financial economist, Merrill Lynch Capital Markets, New York.

Internationally, the environment for U.S. corporate issuers is much less attractive. Shell-shocked foreign investors are wary of dollar-denominated debt. According to Salomon Brothers, the week after the crash international issuance by U.S. corporations stood at $158 million, compared to the $2 billion monthly average for the first nine months of 1987. None of the issues was U.S.-dollar denominated.

Investment bankers also recommended financing alternatives such as incorporating some kind of option in the 10-year bond such as a call option. In that case, a company would issue a 10-year bond, non-callable for five years, then sell the call option back to the underwriter to earn the option premium. The issuer would end up with a 10-year, non-callable bond. Some issuers are also looking at swapping floating-rate debt for fixed-rate debt.

The corporate finance experts also agree there are fewer options in this volatile market for non-investment grade companies, which often rely on the junk bond market for financing. That market has skidded as investors fear that an economic downturn will be bad news for junk bond-financed companies. There's been a dearth of new issues. Investment bankers urge non-investment grade companies to stay on the sidelines until the market calms down.

The biggest losers likely will be start-ups, which rely on initial public offerings and venture capital. The IPO market came to a grinding halt and venture capitalists who can afford to be more selective are turning to companies that have moved to the second phase of growth.

"We view this as an opportunity to improve the quality of our portfolio in later stage growth companies," said venture capitalist Alan Patricof, chairman of Alan Patricof Associates, New York.

Elsewhere in the private placement market, which is flourishing, cash-rich institutional investors are bargain hunting, albeit with caution.

For some companies, it may make sense to seek out the private placement market, which can provide competitive terms and quick turnaround.

"There's plenty of money. We have money to invest, but right now there's more talk than action," said Rodney Reynolds, senior managing director, Prudential Capital Markets Group, adding that most business is being done with the highest quality companies. He said there was still a "reluctance" to do business with weaker credits because of the uncertainty of the impact of the economy on those companies.

"Quality and value are what we are looking for," said Jack Cartland, vice president-private finance, Aetna Life & Casualty Co., Hartford, Conn.

Financing availability depends to some extent on what the money will be used for. Some financing sources are reluctant to lend money for expansion plans until the market settles. In the leveraged buy-out market, funding hasn't dried up entirely for companies trying to raise money to do buy-outs.

Joseph L. Rice III, president, Clayton & Dublier Inc., a New York private investment firm, said he is not having trouble arranging $200 million in financing to acquire the Oklahoma division of Safeway Stores Inc. The transaction was announced five days before the market collapsed.

"The amounts may be marginally less (from the banks) and it may be marginally more expensive," Mr. Rice said. "The net-net is sound transactions will go through."

He added institutional investors that have previously committed funds to buy-outs arranged by Clayton & Dublier had not pulled back because of the stock market crash. ■

Public offerings in difficult markets*

Week beginning	equity vol.[1] ($ mils.)	# of issues	S&P 500	debt vol.[2] ($ mils.)	# of issues	Shearson-Lehman Long-Treasuries Index[3]
9/28/87	479.1	13	328.07 + 2.5	1,224.3	12	+0.13
10/5/87	760.7	24	311.07 − 5.2	2,956.1	23	−2.21
10/12/87	501.9	13	282.70 − 9.1	1,705.3	13	−1.98
10/19/87	401.8	4	248.22 − 12.2	3,887.9	27	+9.21
10/26 - 10/28	0	0	233.28 − 6.0	921.8	7	−0.07

* Figures calculated on net proceeds basis
[1] Common and preferred stock only
[2] Convertible and non-convertible issues
[3] Average maturity 23 years
Source: IDD Information Services, New York

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Pensions & Investment Age

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Cost of funding retiree medical benefits

		Pension funding methods		
Year	Pay-as-you-go	Projected unit credit	Entry-age normal	Aggregate
	Annual contribution per active employee			
0	$ 200	$1,100	$1,400	$1,500
10	300	1,500	1,700	1,600
20	800	1,500	1,600	1,500
30	1,500	1,700	1,800	1,500
40	2,600	2,700	3,000	2,800
50	4,300	4,400	4,900	4,700
	Fund ($ millions)			
0	0	0	0	0
10	0	154	192	193
20	0	375	426	426
30	0	617	668	667
40	0	1,243	1,331	1,273
50	0	2,470	2,649	2,2482

Source: Employee Benefit Research Institute, Washington

Retiree health proposal could damage stocks

By Fred Williams

WASHINGTON — The recent plunge in stock market prices may be insignificant compared with the drop that could result if the Financial Accounting Standards Board requires corporations to accrue liabilities for retiree health benefits on their balance sheets.

The co-authors of a new study on measuring and funding corporate liabilities for retiree health benefits warn stock prices could suffer significant downward pressures after the FASB begins requiring companies to accrue these liabilities. The final FASB ruling is expected late next year.

If, as expected, the FASB adopts such requirements, the annual expenses of corporations providing retiree health benefits could be from two to eight times current expenses, according to Bill Reimert and Phyllis Doran, consulting actuaries with the New York-based firm of Milliman & Robertson, and co-authors of the study released Nov. 12 by the Employee Benefit Research Institute Education and Research Fund.

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Inside:

CORPORATE FINANCE: The stock market crash has thrown a curve at the phenomenon of high-yield bonds; institutional investors are remaining bullish, despite plans by companies to cut back on new offerings — Page 71.

CONSULTANTS: Executives of tax-exempt funds rely on consultants for a lot more than just consulting. *Pensions & Investment Age* examines the myriad of ways consultants help funds and profiles more than 100 of them — Page 31.

...ives are ...ptions to ...ed ...day's stunning stock market crash — Page 15.

Funds targeting '88 proxy fights

By Marcia Parker

Brimming with confidence after their first proxy season as full-fledged activists, institutional investors have targeted more than a dozen companies, including International Paper Co. for the second time, for their 1988 campaigns to get poison pills rescinded.

The $25 billion Teachers Insurance and Annuity Association — College Retirement Equities Fund, New York, which is in the process of finalizing its plans for the upcoming proxy season, notified Purchase, N.Y.-based International Paper last week it is sponsoring an anti-poison pill resolution there for the second year in a row. CREF wants the International Paper poison pill rescinded unless it is approved through a shareholder vote.

The $31.5 billion New York City Retirement Systems plans as many as 14 anti-poison pill resolutions, but has not yet finalized the list of companies.

District unions of the $10 billion United Brotherhood of Carpenters Union, Washington, are sponsoring anti-poison pill resolutions at Boise Cascade Corp., Boise, Idaho; and MCA, Universal City, Calif.

The $13.5 billion State of Wisconsin Investment Board, Madison, is sponsoring a resolution at Allied-Signal Inc., Morristown, N.J., to force the company to put a shareholder rights plan to a stockholder vote.

Even though the 1988 proxy season is months away, big public pension funds already have selected the companies and the corporate governance issues that are sure to generate another round of heated debate between institutional investors and big business in 1988.

This year's proxy season was dominated by resolutions calling on companies to withdraw shareholder rights plans, which boards enact — sometimes without shareholder approval — to make it harder for the firm to be taken over. Nearly 60 companies faced challenges on such poison pills in 1987. None passed, but several resolutions netted a relatively strong show of support from shareholders.

It's too early to tell if 1988 will be a repeat of 1987, but it's clear there will be plenty of sponsors of anti-poison pill and anti-greenmail resolutions and other resolutions calling for confidential proxy voting and for companies to pull out of South Africa.

Sources also said at least one public pension fund is considering trying to get a director elected to the board of certain corporations and another public pension fund is considering hiring a proxy solicitation firm.

The hiring of a proxy firm would be a first, and could indicate public pension funds would be willing to wage a full-scale proxy solicitation campaign. That would escalate their participation from merely acting as sponsors of proxy resolutions.

Sponsors who want their resolutions to be included in the 1988 proxy statements companies prepare in advance of annual meetings must notify most companies this month and next.

In recent days, the first letters have gone out to chief executives across the country, according to resolution sponsors, proxy firms and company executives. International Paper, Boise Cascade and Allied-Signal received their letters. Gillette Co., Boston, heard from the $38 billion California Public Employees' Retirement System, Sacramento, which is sponsoring an anti-greenmail resolution.

Scores of other companies will be targeted in the coming weeks. Although institutional in-es-

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Corporate earnings safe despite market plummet

By Barry B. Burr

Corporate financial executives don't expect October's stunning market crash to affect pension expense or corporate earnings that will be reported for 1987.

Top management at a number of the companies sampled requested special reports from their pension accounting and investment executives on the effect of the crash on corporate financial reporting under the Financial Accounting Standards Board's Statement 87.

The pension accounting statement, unlike the old Accounting Principles Board Rule 8, requires much of the volatility in pension earnings, assets and liabilities to flow directly to the income statement and, beginning in 1989, to the balance sheet.

The upshot of their reports eased fears.

"It's not the market that crashed; it's those expectations" of high returns, said Gary Pines a consultant at Towers Perrin Forster & Crosby, Chicago.

At Hewitt Associates, Lincolnshire, Ill., Michael L. Johnston, partner, said, "Pension funds did not lose anything. They lost the expectation of a whole lot of overfunding."

In interviews, corporate executives said they would end up with overall investment gains for 1987, and slightly larger

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It's not the market that crash... it's the expectations of high return...
— Gary Pi...

Managers split on world scene

By Marlene Givant

Bottom-up international managers are divided on whether markets have bottomed.

Some are tickled over the cut-rate stocks around the world and are buying like crazy; others are on the sidelines, leaving money in bonds and short-term instruments.

Many are waiting because of the sharply reduced liquidity in markets other than Japan, the United Kingdom and West Germany and because they need a clearer economic sense to re-evaluate company earnings estimates.

The country mix of the managers, which results strictly from bottom-up stock selection, has changed little since Black Monday.

For all international managers in InterSec Research Corp.'s universe, the median portfolio's geographic asset mix in the third quarter overweighted the hard-hit Pacific Basin and U.K. market as compared with the Morgan Stanley Capital International Europe Australia Far East index, and underweighted Japan, which suffered relatively little compared to other major markets.

The median fund had 31.5% in Japan, 12.5% in other Pacific Basin markets, 19.5% in the United Kingdom, 26.3% in continental Europe, 2.8% in other markets and 1.9% in cash at the end of September, according to the Stamford, Conn., research firm. That represented only a slight change from the second quarter.

The EAFE index had 56.1% in Japan, 5.8% in the rest of the Pacific Basin, 15.6% in the United Kingdom, 22.2% in continental Europe and 0.3% in other markets.

Geographic asset allocation of non-U.S. portfolios

Country/region	InterSec median portfolio		EAFE	
	3rd qtr.	2nd qtr.	3rd qtr.	2nd qtr.
Japan	31.5	32.4	56.1	56.8
Other Pacific Basin	12.5	10.1	5.8	5.0
United Kingdom	19.5	21.0	15.6	15.5
Continental Europe	26.3	25.0	22.2	22.4
Other	2.8	2.2	0.3	0.2
U.S cash	1.9	2.3	NA	NA

Source InterSec Research Corp., Stamford, Conn.

"The crash and horror that hit everyone when the markets of the entire world became illiquid for a whole day brought home to people that liquidity in a market is totally important. Therefore the tendency for most people is to put money into more liquid markets," said David Skinner, managing director of Martin Currie Ltd., Edinburgh, Scotland, which managed $310 million for U.S. tax-exempt clients at the end of September.

Although bottom-up managers focus on stocks more than markets, many are stumped by the current economic uncertainty.

"The issues on the table are macro issues. With what's going on now — the great waves of ma-

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Harvard commits to 3rd energy deal

By Fred Williams

CAMBRIDGE, Mass. — The Harvard University endowment, with about $3.5 billion in assets, has made its third major oil and gas investment since undertaking a direct-market approach last December.

Harvard will participate in a $15 million developmental drilling joint venture through Aneas Venture Corp., the investment affiliate of Harvard University, along with Harken Oil & Gas Inc., Dallas, and George Soros, president of Soros Fund Management, New York.

A spokesman for Harken declined to reveal the lead investor in the deal or the amount each partner will invest.

Harvard officials could not be reached at press time.

Both Aneas and Mr. Soros are Harken shareholders and two Harvard Management Co. officers, Michael Eisenson and Donald D. Beane, sit on Harken's board of directors.

According to the Harken spokesman, the joint venture will permit Harken to drill up to 50 wells during the next three years. The wells will be drilled primarily on natural gas prospects on undeveloped leases and acreage operated or owned by Harken.

Harvard has a continuing oil and gas investment program through Aneas and made its first direct oil and gas deal late in 1986 when it decided to put $20 million of its assets into an acquisition program, also with Harken (*Pensions & Investment Age*, Dec. 8). That two-year program calls for separately negotiated acquisitions of oil and gas reserves and investments in energy-related companies.

Later in December, Harken announced the closing of the acquisition of Kennedy and Mitchell Inc. a privately held, independent oil and gas company based in Denver by KMI Acquisition Co.

KMI Acquisition is owned 49% by Harken and 51% by Aneas. KMI is an oil and gas exploration and production company with approximately $20 million in assets.

In April, Harvard became the lead investor in a $145 million offshore oil and gas exploration venture known as Smith Offshore Exploration Co. (*P&I Age*, April 20). ■

Third quarter performance in the brokerage industry

	Revenues		Net income		Earnings per share	
	1987	1986	1987	1986	1987	1986
Bear Stearns Cos.*	482.7	334.1	47.9	18.9	.53	.22
First Boston	369.6	263.2	40.8	27.1	1.15	.76
E.F. Hutton	988.9	674.5	8.7	8.2	.26	.26
Merrill Lynch	3,023.0	2,234.0	195.1	93.7	1.72	.86
Morgan Stanley	851.9	554.3	72.9	39.5	2.82	1.57
PaineWebber	628.6	605.6	14.8	21.1	.44	.71
L.F. Rothschild	146.9	74.8	−6.3	−5.4	−.42	−.32
Shearson Lehman Brothers	1,300.0	1,100.0	51.0	65.0	.51	**
Salomon	1,559.0	1,600.0	27.0	128.0	.18	.82

* for period ended July 1, 1987 and July 25, 1986
** Shearson Lehman was not a public company in 1986
Source: Third quarter earnings statements

Morgan Stanley on top

By Brad Rudin

Morgan Stanley Group Inc. outpaced its publicly owned rivals on Wall Street with third-quarter earnings results that mark a bright spot in what proved to be a trying quarter for some brokerage firms.

The list of firms that were unable to cope satisfactorily with volatile markets is likely to grow as a result of the Oct. 19 stock market crash, analysts said in comments about prospects for the fourth quarter.

Brenda McCoy, the brokerage analyst at PaineWebber Inc., said the 15% to 20% decline in 1987 earnings she had predicted for the brokerage industry will be revised to reflect the industry's more bearish prospects.

Although the industry took a hard blow from the stock market crash, brokerage firms still possess considerable financial strength.

"The rated brokers have met their funding requirements without interruption," Standard & Poor's Corp. said in its Credit Week publication. "The ability to fund during these difficult times demonstrates the markets' confidence in the largest brokerage firms."

Brokerage firms rated by S&P suffered losses from risk arbitrage, equity inventory positions and counterparty failure, but not enough to impair their capital, the rating agency said.

"None of the firms determine their own fate," said John Keefe, the brokerage analyst at Drexel Burnham Lambert Inc. "Some are more nimble than others, but sooner or later their fate is determined by the markets."

PaineWebber Group Inc., L.F. Rothschild Holdings Inc. and Salomon Inc. all turned in

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The *P&I Age* monthly indexes track the changes in the Standard & Poor's 500, Frank Russell Co.'s Russell 3000 stock index, the Ryan Index of fixed-income securities, the Shearson Lehman Government/Corporate bond index and the Salomon Brothers Broad Investment Grade bond index.

***P&I Age* October indexes**

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	−21.56	6.60	6.41
Russell 3000	−22.43	2.66	2.69
Ryan Index	4.67	−0.90	0.11
Shearson Lehman Gov't./Corp.	3.75	0.29	1.88
Salomon BIG	2.87	−0.24	1.61

Source: Rogers, Casey and Barksdale Inc., and Frank Russell

Because of a calculation error, incorrect data were supplied to *Pensions & Investment Age* for the Salomon BIG index for August and September. The correct figures are:
- **Year-to-date ended Aug. 31: −0.85.**
- **12 months ended Aug. 31: 1.42**
- **Year-to-date ended Sept. 30: −3.02**
- **12 months ended Sept. 30: 0.20.**

The one-month figures were correct.

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Consultants

Execs place trust in 'buddy system'

By Anne E. Schwimmer

Getting recommendations from colleagues appears to be the first step of many pension fund executives in hiring consultants.

In addition to word of mouth, the executives also use published directories and the firms whose representatives have knocked on their doors in compiling their first list of choices.

Once they get that input and narrow the list, the fund executives concentrate on choosing a consultant that meets numerous criteria ranging from experience to fees.

"We talked to people in the real estate business and to people in the pension fund business. Certain names came up and we checked them out," said DeWitt Bowman, chief investment officer at the $3 billion City & County of San Francisco Employees Retirement System.

The fund hired Pension Realty Advisors, San Francisco, earlier this year (*Pensions & Investment Age*, June 15).

Before Tom Vanneman, financial manager of the $216 million Alexander & Alexander Inc., Baltimore, pension plan, selects a consultant, he talks to other consultants "to see what they have vs. what we are getting."

The company uses SEI Funds Evaluation Services, Wayne, Pa., as a consultant. Mr. Vanneman periodically checks others, but he doesn't have to look very hard to find them: "We rely on them to contact us. They are usually very good at that."

Alexander & Alexander uses several criteria in evaluating consultants.

Mr. Vanneman said the consultant should have a "pro-active approach to pension consulting," which he defined as a willingness to actively seek him out with information and advice.

He also emphasized the importance of timely research on complex topics like pension insurance. In choosing a consultant, Mr. Vanneman added, the workload of the account representative is also an important factor, because he wants to be sure enough time will be devoted to his company's interests.

San Francisco's DeWitt Bowman asked other professionals for recommendations.

Nancy Wellhousen, the city treasurer who oversees the $65 million Oklahoma City Employee Retirement System, said she called on industry colleagues for input before hiring Fiduciary Capital Advisors Inc., Westfield, N.J., in 1986.

"We called the state pension system and the city of Tulsa and got recommendations from them," she said.

"Then we called the three they used and interviewed them."

Officials at the $470 million Jacksonville (Fla.) City Retirement System, referred to a list of consultants who had called on them in the past and on the Money Market Directory of Pension Funds, said Richard Cohee, city treasurer.

"We mailed out requests for

Continued on page 59

Consultants add value to go with data

By Fred Williams

With performance data easily available from their master trustee or custodian, pension executives expect their consultants to add value and depth through their evaluation services.

Performance measurement services have become ubiquitous among pension consultants; virtually every firm listed in the *Pensions & Investment Age* directory offers various levels of assessment as part of a range of consulting services.

While many claim their services are unique, one of the usual differences is in the level of additional support that goes with the numbers.

Southwestern Bell Corp., St. Louis, has used Buck Pension Fund Services, New York, since the regional telephone operating company was established in 1984.

Roger Wohlert, assistant treasurer-corporate finance, said he depends more on the performance evaluation services of the $6.5 billion fund's master trustee, First Republic-Bank Dallas, than on Buck.

"We rely on the performance evaluation and calculations with First Republic and we use Buck to test the reasonableness of the data. They (Buck) get the information at the same time and they have their own universe. We compare our managers against the indexes and TUCS (Trust Universe Comparison Service) and against Buck's universe. The Buck universe is smaller, but we feel it is of a higher quality of managers because it includes managers they would recommend. If our managers are doing well against them, then it is probably a good sign because they have already passed some screens with Buck," said Mr. Wohlert.

James Baker, executive secretary of the $202 million Kansas City (Mo.) Public School Retirement System, said his fund was seeking a performance measurement service when it hired William M. Mercer-Meidinger-Hansen Inc., Louisville, Ky., two years ago. It now uses the firm's full consulting service.

"We find it is necessary to protect us fiduciarily. It helps us show that we have made valid investment decisions and indicates to us our bogies and cumulative situation with our investments. We need to look at our managers and make sure they are doing what they said."

"We could get the performance evaluation information from our custodian bank . . . any large custodial operation can do similar things (as a consultant), but the key thing is do they draw on others to compare with. Custodians won't give opinions or advice. For advice you go to a consultant; for numbers you can go to the bank."

A spokesman at DeMarche Associates, Kansas City, Mo., said the firm's performance evaluation work "goes much deeper than simply compiling performance numbers as trustees do. We audit all performance data. We look at why and how the results were achieved. It is a matter of dissecting all the transactions and looking at the individual securities bought and sold."

Roger Wohlert uses a consultant to get a clue on how Southwestern Bell's managers compare with others.

Performance results are reviewed and audited at least quarterly, he said, from data taken from trustee and custodian records.

"From that we develop our own performance numbers. Every transaction is traced and matched as of the trade date. It is a total recreation of each period, everything is recalculated and audited," the DeMarche spokesman said.

While the larger pension consultants such as Hewitt Associates, SEI, Wilshire Associates, Frank Russell Co. and Mercer-Meidinger-Hansen still dominate the performance evaluation market, smaller consultants believe their services are equal to those provided by big companies.

Small and midsize consultants see their services as more flexible and more easily customized to the client's needs.

Richard Holbein, president of Richard Holbein & Associates, Dallas, unlike many consultants, offers performance mea-

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IMCA keying on professionalism

By Anne E. Schwimmer

DENVER — Professionalism is serious business to the Investment Management Consultants Association, and the group is doing something about it.

The association, which was started in 1985 by eight professionals and now boasts 265 members, will celebrate its second anniversary Thanksgiving Day.

To promote professionalism among consultants and other professionals serving small and midsize accounts, the IMCA will hold its first certification course in April at the University of Pennsylvania's Wharton Business School, Philadelphia.

Still to come is a major attempt to standardize performance reporting standards of money managers. The IMCA is having difficulty rallying support for the idea in the industry, despite the backing of some money managers.

The stock market's volatility, however, may boost the group's cause. "The current difficult time is going to bring out all the problems," said George A. Dunn, immediate past president of IMCA and vice president of EF Hutton & Co. Inc., Washington.

The certification program tells clients IMCA members have a certain amount of training, knowledge and experience, said James P. Owen, executive vice president of IMCA and managing director of NWQ Investment Management Co., Los Angeles.

The weeklong program, the first session of which already is overbooked, will be repeated two or three times a year, said Hal Rossen, president of the IMCA and senior vice president of the investment management consulting services department of Prudential-Bache Securities, Detroit.

In addition to improving professionalism in the industry, the IMCA's goals are to educate executives of midsize funds ranging from $1 million to $50 million, on the help available to them from investment management consultants and to promote and protect the interests of the profession, said Mr. Owen.

The non-profit organization's membership includes money managers, consultants, certified public accountants, attorneys and others who serve middle market accounts.

James Owen, executive vice president; George A. Dunn, past president; and Hal Rossen, president, all see a bright future for the Investment Management Consultants Association.

As part of its educational efforts, the IMCA runs a yearly conference on issues facing the industry. "It's a real nuts-and-bolts type of conference," said Mr. Dunn. This year's conference will be held in Palm Beach, Fla. April 7-10. Topics to be covered include asset allocation and matching management styles with investment objectives, he said.

Mr. Owen said IMCA is mostly involved with middle-market accounts, which often do not have the resources or time to create an in-house staff such as those used by larger funds to deal with the problems of fund management.

Midsize accounts, he said, need consultants to aid them in the process of choosing managers, setting goals and objectives for the fund and tracking the fund's performance.

"The midmarket account," said Mr. Dunn, "needs someone to write out investment objectives and to supply a third-party analysis of how those objectives are being met. Eighty percent of midmarket accounts do not have a written set of objectives."

In addition, he said, such accounts do not have access on their own to the sophisticated data bases large funds use. These could be made available to them through their consultant.

"The objectives and investment goals of midmarket accounts are quite different from those of larger plan sponsors," said Mr. Owen. The larger plan sponsors want to "outperform the S&P and are willing to assume greater-than-market risk," he said. Smaller sponsors, however "are not out to beat the market," Mr. Owen said.

"They are seeking to earn a greater average constant return in order to beat inflation. The preservation of capital is upper most in their minds," he said.

Unregistered advisers used by few

By Trudy Ring

Some consultants, both in separate account arrangements and pooled manager-of-managers funds, have placed client money with investment advisers not registered with the Securities and Exchange Commission.

They usually have not done so for pension funds covered by the Employee Retirement Income Security Act. Under ERISA, fund sponsors and trustees cannot pass fiduciary responsibility to an unregistered manager. However, these consultants said unregistered managers have provided good performance and varied investment styles for non-ERISA funds, endowments and foundations.

Yet other consultants said with the ease of registration, there is no good reason for advisers not to register and thus, no reason to use unregistered managers.

Evaluation Associates Inc., Westport, Conn., has used unregistered investment partnerships for some clients, said Keith L. Stransky, vice president. These clients represented a mixture of tax-exempt and taxable accounts, but do not include ERISA funds, he said.

He declined to name the clients or advisers or state the amount of money involved. Evaluation Associates does not use unregistered advisers in its pooled fund, but does in separate accounts for which the firm acts as a manager of managers, he said.

Unregistered managers have some advantages, Mr. Stransky said.

"One of the positives is that these managers have a large part of their net worth in the same partnerships as the clients," he said. Also, unregistered advisers can do some things registered managers can't do, such as shorting securities or buying commodities.

A disadvantage is that unregistered managers tend to be very private and unenthusiastic about disclosing investment performance results or other data, Mr. Stransky said. However, Evaluation Associates has persuaded the advisers it has used to release this information.

Clients using these investment partnerships have had to sort through complicated agreements, usually about 50 pages long, he said. "You need a lawyer, really, to read a partnership agreement," he said.

In the arrangements it has made for using unregistered advisers, Evaluation Associates has not assumed fiduciary liability. It has monitored advisers for the clients, Mr. Stransky said.

The firm hasn't gotten to the point of deciding whether it would recommend use of unregistered advisers for ERISA clients.

"I would say that you have to have a sophisticated investor to use unregistered advisers," Mr. Stransky added.

Collins Associates, Newport Beach, Calif., has used a few unregistered advisers in its pooled manager-of-manager funds, said Budge Collins, president. He said he did not use the unregistered managers for ERISA funds, but for foundations. He declined to name clients or advisers.

He said he believes unregistered managers often are better than registered ones. Like Mr. Stransky, he noted they can go short in the stock market. Also, Mr. Collins said, unregistered advisers often have extremely low transaction costs.

Clients haven't objected to the use of unregistered managers, he said. "They love them," he said. "Performance has been truly outstanding," though he declined to release any figures.

He said he monitors about 50 unregistered advisers; of these, he has used six. They are primarily equity managers, he said.

Mr. Collins said these managers are fiduciaries, but in these arrangements Collins Associates also takes on fiduciary responsibility as a registered investment adviser.

Berg Fiduciary Consultants, Port Chester, N.Y., got an ERISA client together with an unregistered manager just once, about five years ago, said Paul E. Berg, president. It was done only because the manager operated on a performance-based fee schedule, which at the time wasn't allowed for registered advisers.

The arrangement involved an exhaustive legal review, Mr. Berg said. The conclusion was there was little risk to the fund in using an unregistered adviser, as the adviser was assigned just $1 million of the client's $100 million pension fund, he said.

"Other than that one instance, we would never use an unregistered adviser for an ERISA account," Mr. Berg said. He said he would have the same reaction for endowment and foundation money.

"It's so easy to register," he said. "There's really no excuse not to get registered." He noted the SEC now allows performance-based fees, so the one obstacle to registration of the adviser he used is gone.

Mr. Berg said he couldn't recall the name of the adviser, which had about $20 million under management and specialized in small-capitalization stocks in high-technology companies that were just beyond the initial public offering stage. He declined to name the client that used the manager.

Other consultants also voiced reservations about use of unregistered advisers.

"In the traditional equity and fixed-income areas, you can find a registered investment adviser to give you what you want," said S.A. "Sandy" Lincoln, managing director of William M. Mercer-Meidinger-Hansen Inc., Deerfield, Ill.

To his knowledge, none of his clients ever has hired unregistered managers as a result of Mercer-Meidinger-Hansen searches, but some such firms might have been included in the searches. From time to time, clients may want a specific unregistered investment firm to be included in a search, Mr. Lincoln said.

He added that a manager's being registered doesn't excuse consultants and pension executives from doing due diligence on that manager. "I don't look at the SEC registration as a necessary and sufficient protection," he said. ■

For reprints of articles appearing in *Pensions & Investment Age*, contact Ulla Rodriguez at *P&I Age*, 220 E. 42nd St., New York, N.Y. 10017; (212) 210-0124

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a

The Alexander Consulting Group Ltd.

20 Bay St., Suite 1900, Toronto, Ontario M5J 2N9; (416) 868-5501

The Alexander Consulting Group Ltd. provides development of investment policies, investment objectives and asset allocation and Canadian manager evaluation, selection, performance measurement and investment performance analysis.

The firm provides the following to the investment management industry: analysis of investment, contribution and benefit risks; selection of trustees and administrative services; development of funding policy; computer simulations; and cash flow projections.

The firm has special expertise in actuarial services, employee benefits, executive compensation, job evaluation and employee communication.

It has 130 retainer clients and 90 professional consultants. Fees are payable in hard dollars.

Nancy Stewart, corporate manager-public affairs and research, is client contact.

HB Aschwald & Associates

P.O. Box 66, Corte Madera, Calif. 94925; (415) 924-1222

HB Aschwald & Associates provides development of investment policies and objectives and asset allocation; U.S. manager evaluation, selection and performance measurement; and analysis of U.S. investment risk levels.

The firm has special expertise in U.S. manager selection and evaluation, primarily in California.

The firm provided services to 45 non-retainer clients during the past year, including 14 corporate and 31 public clients.

There are three professional consultants. Fees are payable in soft dollars.

The firm also offers transaction and trading desk execution.

Howard Aschwald, managing partner, is client contact.

b

B of A Pension Consulting Services

315 Montgomery St., Suite 1610, San Francisco, Calif. 94104; (415) 622-8254

B of A Pension Consulting Services, a subsidiary of Bank of America, provides development of investment policies and objectives and asset allocation; U.S. manager evaluation, selection; and U.S. investment performance measurement and analysis.

The firm has special expertise in manager selection and performance measurement.

The firm provided services to 20 non-retainer clients in the past year, of which 16 were corporate and four, union.

There are three professional consultants. Fees are paid in hard dollars.

Peggy L. Newton, vice president, is client contact.

BARRA

1995 University Ave., Suite 400, Berkeley, Calif. 94704; (415) 548-5442

BARRA provides development of investment policies and objectives and asset allocation; U.S. and foreign performance measurement; and analysis of U.S. and foreign investment performance.

The firm also provides portfolio risk analysis and optimization, both U.S. and foreign; asset allocation tools; currency risk modeling; multiple manager analysis and optimization; normal portfolio construction; fulfillment fund construction; customized risk and valuation models; and specialized consulting.

The firm offers U.S. and international equity and fixed-income analyses and options and futures tools to the investment management industry.

It has special expertise in quantitative investment methods.

It has more than 200 retainer clients, seven of which are public.

There are 60 professional consultants. Fees are payable in hard and soft dollars.

Barbara Hodges, manager of marketing communications, is client contact.

Bateman Eichler, Hill Richards Inc. Consulting Group

700 S. Flower St., Suite 2700, Los Angeles, Calif. 90017; (213) 683-3979

Bateman Eichler, Hill Richards Inc. Consulting Group, a subsidiary of The Kemper Group, provides development of investment policies and objectives and asset allocation; U.S. and foreign manager evaluation and selection; U.S. and foreign investment performance measurement; and analysis of U.S. and foreign investment performance.

The firm provides performance measurement services to the investment management industry.

The firm has special expertise in U.S. and foreign multimanager analysis.

Of the 145 retainer clients, 140 are corporate, two are public and three are union. The firm also provided services to 15 non-retainer clients during the past year, of which 14 were corporate and one, union.

There are six professional consultants. Fees are payable in hard and soft dollars.

Steven W. Arnold, vice president, is client contact.

Beam & Associates

12813 E. Paul, Clovis, Calif. 93612; (209) 299-4152 or (213) 625-1611

Beam & Associates, a subsidiary of Morgan, Olmstead, Kennedy & Gardner, offers development of investment policies and objectives and asset allocation; U.S. and foreign manager evaluation and selection; U.S. and foreign performance measurement; and analysis of U.S. and foreign investment performance. The firm also provides comparison of results to requirements of policies and objectives.

The firm has special expertise in equity and debt buys and sells vs. stated methodologies.

There are 15 retainer clients and five non-retainer clients.

There is one professional consultant. Fees are payable in soft dollars.

Ed Beam, vice president, is client contact.

Becker, Burke Associates

221 N. LaSalle St., Suite 1000, Chicago, Ill. 60601; (312) 782-5665

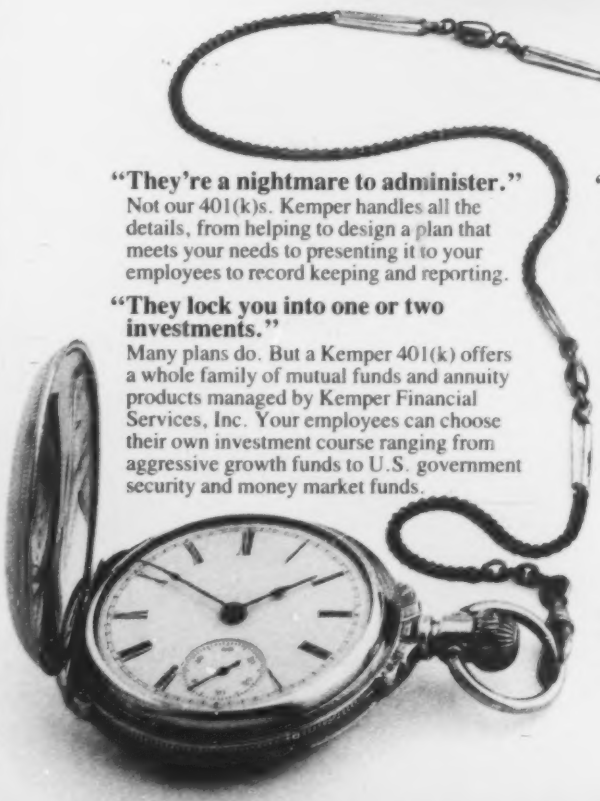
Becker, Burke Associates provides development of investment policies and objectives and asset allocation; U.S. and foreign manager evaluation and selection; U.S. and foreign performance measurement; and analysis of U.S. and foreign investment performance.

The firm also provides performance fee consulting, South Africa divesting studies, master trust searches and Customized Performance Standards.

The firm provides evaluation and Customized Performance Standards to the investment management industry.

The firm has special expertise in investment policy analysis, Customized Performance Standards, designing asset manager configurations and per-

Kemper retires some old ideas about 401(k)s.



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